

Message Text

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E.O. 11652: GDS

TAGS: EAID, EFIN, ECON, SP

SUBJ: GOS OFFICIALS COMMENT ON FINANCE MINISTER'S
LETTER TO SECRETARY

REF: MADRID 0834, 0761, 0758

1. OFFICIALS AT MINISTRY OF FINANCE AND BANK OF SPAIN
HAVE INDICATED TO US RECENTLY THAT SPAIN'S FOREIGN DEBT
PICTURE IS NOT AS BAD AS VILLAR MIR'S LETTER IMPLIES,
THAT VIRTUALLY NO ONE, EXCEPT POSSIBLY VILLAR MIR, REALLY
EXPECTS A LARGE USG LOAN TO HELP SPAIN THROUGH PRESENT DIFFI-
CULTIES, AND THAT VILLAR MIR'S LETTER WAS ENTIRELY AT HIS
OWN INITIATIVE.

2. DIRECTOR GENERAL FOR INTERNATIONAL AFFIARS AT
BANK OF SPAIN TOLD US THAT ONLY TWO PERCENT OF \$8.7
BILLION PUBLIC AND PRIVATE FOREIGN DEBT IS SHORT TERM,
I.E., UNDER SIX MONTHS, AND THAT ANNUAL DEBT SERVICING
ON TOTAL DEBT (BOTH PUBLIC AND PRIVATE) IS LESS THAN
TEN PERCENT OF CURRENT ACCOUNT FOREIGN EXCHANGE
EARNINGS. HE SAID DEBT OBVIOUSLY HAD GROWN CONSIDERABLY
IN LAST TWO YEARS BUT THAT IT IS MANAGEABLE.

3. TECHNICAL SECRETARY GENERAL IN FINANCE TOLD US
VILLAR MIR APPEARED TO BE ACTING LARGELY, IF NOT ENTIRELY,
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ON HIS OWN INITIATIVE IN REQUESTING U.S. ECONOMIC

ASSISTANCE. HE SAW NO REASON TO BELIEVE THE U.S. COULD PROVIDE LOAN OF THE KIND SUGGESTED BY HIS MINISTER, AND HE WAS PARTICULARLY CONCERNED OVER THE HARMFUL RESULTS OF A SPANISH ECONOMIC MISSION TO WASHINGTON RETURNING EMPTY-HANDED. HE DID RECOGNIZE THAT OTHER MATTERS RAISED BY VILLAR MIR, E.G., U.S. TRADE RESTRICTIONS, MIGHT BE SUBJECT OF DISCUSSIONS SOMETIME IN THE FUTURE BUT NOT AS EARLY AS FEBRUARY. BOTH MEN LEFT NO DOUBT THEY VIEWED VILLAR MIR AS A NEWCOMER IN MATTERS OF GOVERNMENT AND INTERNATIONAL FINANCE.

4. UNDERSECRETARY IN MINFIN TOLD US HE WAS LESS CONCERNED ABOUT SPAIN'S PRESENT ECONOMIC SITUATION THAN WAS VILLAR MIR. HE DID, HOWEVER, SAY HE HOPED U.S., EEC AND OPEC MIGHT BE ABLE TO PROVIDE SOME LONGER-TERM CREDITS TO HELP WITH SHORT-TERM DEBT SERVICING PROBLEMS. HE REALIZED U.S. NO LONGER HAS LARGE SUMS AVAILABLE TO ASSIST COUNTRIES WITH BALANCE OF PAYMENTS DIFFICULTIES, BUT HE HOPED SOMETHING HELPFUL MIGHT BE WORKED OUT. HE SAID DEBT PAYMENTS DUE THIS YEAR WOULD TOTAL ABOUT \$1 BILLION. REPRESENTATIVE HERE FOR CHASE MANHATTAN TOLD US HE HAD DISCUSSION FEB 19 WITH FINANCE UNDERSEC WHO SAID GOS WAS LOOKING FOR \$1 TO \$1.5 BILLION IN FOREIGN LOANS FOR 1976 AND WAS TRYING TO "CENTRALIZE" BORROWING. HE HAD INDICATED TO CHASE AN INTEREST IN A \$500 MILLION SYNDICATION HEADED BY CHASE AND WITH CHASE CONTRIBUTING \$100 MILLION. CHASE REP SAID HE TOLD UNDERSEC THAT ANYTHING LIKE THIS, RESEMBLING STRAIGHT BALANCE OF PAYMENTS FINANCING, MADE NEW YORK BANKERS "VERY NERVOUS" AND HE SAID CHASE WAS DEFINITELY NOT INTERESTED.

5. DIFFERENCE IN FIGURES CITED THUS FAR UNDERSCORES NEED FOR MORE PRECISE AND DETAILED INFORMATION IN ORDER TO KNOW EXACTLY HOW PRESSING SPANISH DEBT SERVICING PROBLEM WILL BE DURING NEXT FEW YEARS. FINANCE MINISTRY HAS PROMISED EMBASSY SPECIFIC DATA AND PROJECTIONS ON DEBT AND BALANCE OF PAYMENTS SOON. MEANWHILE, IMF TEAM WAS IN MADRID LAST WEEK FOR CONSULTATIONS ON SPANISH ECONOMIC SITUATION FOLLOWING FEB 9 DEPRECIATION OF PESETA. IT WAS UNPREPARED, AS MATTER OF POLICY, TO
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PROVIDE EMBASSY WITH INFORMATION. DEPARTMENT MAY WISH TO SEEK ITS VIEWS ON BOP MATTERS AND FUND'S VIEWS ON DEBT SERVICING PROBLEM IN WASHINGTON.
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